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PRIVATIZATION AND THE AMERICAN EXPERIENCE

by
Ronald D. Utt
Deputy Chief Economist

So entrenched is the notion of big government here and abroad that we easily forget an all-encompassing state is a relatively recent phenomenon largely confined to the postwar era. Recognizing that this bureaucratization of America has created more problems than it has solved, one of this Administration's overriding policy themes has been the reversal of this federal encroachment. But efforts to convert the theme into action have consistently failed, and the government's share of our national income has been higher during the Reagan years than during any other peacetime period. As efforts to resolve the problem through significant budget cuts and program terminations met with overwhelming political resistance, some advocates of limited government proposed the concept of "privatization" as an alternative way of shrinking the state.

Privatization is defined as the transfer of government services and state enterprises to private sector owners and suppliers, and can be viewed as a "win-win", "positive sum" alternative that offers both the promise of better public service at lower cost and a much smaller, less intrusive government. Despite this promise, as well as the documented benefits from the recent, extensive British experience, the Administration's privatization proposals of 1986 and 1987 were swiftly rejected by Congress and the concept has now nearly vanished altogether from the general public policy debate. Even the Administration now seems wary about getting too far out in front on the issue.

In seeking an explanation for this loss of momentum and interest, one can't help but think that privatization supporters lost this battle because they let the opponents quickly label it as a fad, and this, in turn, enabled them to trivialize the concept before there was any serious discussion of it. Characterized as some "new fangled idea" and supported by many conservatives to boot, the average scholar, journalist, public official or politician took the path of least resistance and swiftly distanced himself from the concept.

This is an odd fate to befall a valuable tool of national policy. As a brief survey of our history demonstrates, reliance on the private sector and private initiative was typically the norm, not the reluctant exception, and was responsible for achieving feats and accomplishments that now seem unimaginable in our present era of growing dependence on government solutions and spending. As the examples that follow illustrate, private initiative and outright "privatization" contributed not only to the discovery and settlement

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of the land that would ultimately become the United States, but also to the survival and development of our nation at critical points in its existence.

The examples begin at the beginning when, in 1492 this hemisphere was discovered (rediscovered?) by Europe. Columbus' first voyage was, in effect, a public/private partnership. Although Queen Isabella did provide her fair share, about one-third of the funds was provided by the shipowner Martin Alonso Pinzon, who also captained the "Pinta" on the voyage, presumably to keep tabs on his investment. Such arrangements were not uncommon and many of the subsequent voyages to the new world were funded in whole or in part by the private sector. Although we now describe these endeavors as voyages of discovery and exploration, they were primarily commercial ventures seeking new trade routes to the Orient or the riches of undeveloped lands.

The voyages of Henry Hudson are probably typical of the commercial interest which motivated many of the ventures. Hudson's first two voyages to Canada represented an attempt to find a Northwest Passage from Europe to the Orient. Such a passage promised a shorter trade route, lower transportation costs and less expensive products. His ventures were funded by the Muscovy Company that had been organized earlier by Sebastian Cabot and several London merchants to monopolize the trade between Russia and England. The Muscovy Company itself was something of a financial innovation in that it was the first joint stock company in which invested capital remained in use instead of being repaid after every voyage.

The best known early settlements were also commercial ventures supported by private investors. Jamestown, for example, was funded by the Virginia Company of London, not the Crown. And perhaps the most famous settlement of all, that of the Separatists (Pilgrims) who landed in Plymouth, Massachusetts several years later, was a joint venture between religious dissidents and a London joint stock company. Indeed, two-thirds of those aboard the Mayflower, including John Alden and Myles Standish, were hired and sent along by the sponsors to protect the company's interest.

Private solutions loomed large again a century and a half later during our War of Independence when a young nation led by a poorly-funded Continental Congress took on the might of the British Empire. In 1776, our Continental navy possessed 27 warships against 270 for the British, a relationship that worsened as the American fleet fell to 20 by the end of the war while the British increased to almost 500. As a consequence, the navy was only occasionally effective despite the impressive heroics of John Paul Jones and others. To fill the gap, the Continental Congress effectively privatized our war effort by issuing letters of marque to privateers, entitling them to go after British vessels. These privateers were armed, privately-owned ships authorized to cruise the seas and attack and capture enemy ships. Their compensation consisted of the prize money from whatever they could capture and resell. By the end of 1777, they had captured 560 British vessels. When hostilities finally ended, the privateers had seized an estimated 1,500 British vessels and captured more than 12,000 seamen. By 1781, British merchants were appealing to their government to end the war.

Two decades later, in our war with the Barbary Pirates, it was again a private endeavor that struck the most significant blow. During the waning

years of the 18th century, these pirates, operating out of Tunisia, Libya, Algeria, and Morocco, prowled the Mediterranean, demanded tribute and seized hundreds of merchant ships belonging to the Western nations, including those of the United States. Our history books tell us that the young republic thundered back: "Millions for defense, not a penney for tribute!", but the reality was that when Thomas Jefferson took office in 1801, an amount equal to about twenty percent of the government's annual revenue had been paid in tribute to the North African Moslem states. Several government military efforts were mounted, but they were not especially successful. We all learned in school how the daring Lieutenant Stephen Decatur penetrated the harbor at Tripoli, but his objective was only to destroy the Philadelphia, an American warship that the pirates had captured and whose crew of 307 still remained in captivity. The problem was not finally resolved until a largely mercenary army, privately raised and funded by William Eaton of Connecticut captured the Libyan port of Derna with the help of three man-o-war brigs which bombarded the port.

Eaton had been our consul to Tunis but was recalled at the request of their government because of his aggressive pursuit of U.S. interests. He returned later under the ambiguous title of "Naval Agent to the Barbary States," for which he declined any compensation unless his venture proved successful. In this capacity, Eaton financed a pretender to the Tripolitan throne and raised an army to pursue the claim. Comprised of sixteen U.S. marines and sailors, forty Greeks, a squadron Arab cavalrymen, 107 camels and more than a hundred others of unspecied origin, this ragtag army, numbering about 400, was led by Eaton through more than 500 miles of North African desert. In capturing Derna, Eaton offered the first real threat to the pirates, and forced the Bashaw of Tripoli to sue for peace and negotiate the release of the American hostages. Although Eaton calculated that his total costs came to around $39,000, Congress squeezed him down to $12,636.60, not a bad price for an event that would ultimately be enshrined in the Marine Corps' anthem.

The War of 1812 offers similar instances of private solutions and successes to military problems. When hostilities commenced, our navy was weaker than it was at the outset of the War of Independence: Against the 600 ships of the Royal Navy, the U.S. Navy had a dozen ships fit for sea duty. Although our navy was small, it fought with great skill and tenacity. The mighty frigates, the Constitution and the United States, achieved impressive victories against their British counterparts in numerous encounters. Still, the weight of numbers became the deciding factor and by 1813, much of our fleet was bottled up in port. Undaunted by the challenge, Congress again issued letters of marque and the privateers roamed the sea to disrupt British shipping. The brig "Yankee" alone seized or destroyed $5 million worth of British shipping during the war, an amount that was more than double the U.S. Navy's budget in 1812.

America's reliance on privateers in its first two wars was not some unpleasant necessity forced upon an embattled nation, but rather a conscious policy based on the principles of limited government. A big standing navy

meant big government, big spending and higher taxes. Privateers, in contrast, cost little, were very effective in the warfare typical of the time (John Paul Jones' "Bonne Homme Richard" was a converted merchant vessel), and could be called upon only when needed. In times of peace they carried cargo from port to port. In 1856, all the major European powers except Spain signed the Declaration of Paris which declared privateering illegal. The United States refused to sign because its small navy made privateering necessary in time of war. Moreover, the United States refused to give up its right to commission privateers unless the principle of the immunity of private property at sea was generally accepted.

Although the wartime exploits of privateers offer some of the most dramatic cases in which our country sought private sector solutions to pressing national problems, our peacetime experiences with privatization offer some equally colorful instances. The Pony Express, for example, was not an adjunct of the United States Post Office, but rather an entrepreneurial initiative in response to inadequate postal service across the continent. Prior to the Pony Express, letters mailed from the East to California had to go by way of ships rounding Cape Horn, a journey of several months under the best of circumstances. Created by the firm of Russell, Majors and Waddell, the Pony Express was able to deliver letters from St. Joseph, Missouri to Sacramento, California in ten days with young men riding fast horses between 157 relay stations stretching across the 1,800 mile route. The business lasted for less than two years before going under, the victim, not of a more efficient Post Office, but of another group of entrepreneurs who built a transcontinental telegraph system which further shortened the time it took to get a message from one coast to the other.

Many other such cases abound. Private money, issued by private banks, was used extensively in the 19th century to aid the commercial development of the cash and credit starved frontier. The extensive network of canals that penetrated the unsettled parts of the Eastern states and brought coal, timber and food to the growing coastal cities and returned with needed manufactured goods was the outcome of one of the first major instances of a thriving venture capital market. Our great universities and teaching hospitals were not created by some early versions of the Departments of Education or Health and Human Services, but were founded by private individuals acting on behalf of their communities.

That we have somehow managed to forget this heritage suggests how utterly pervasive the notion of government involvement has become in our political and economic system. Once viewed as the solution of last resort, government now is often seen as the only appropriate provider of even the most trivial of services. It would be one thing if this situation was due to mere neglect and disinterest, but as we are now discovering, the belief in the primacy of government also, unfortunately, reflects a determined effort to suppress private alternatives even when they exist and are demonstrably better. A few years ago, for example, the House Budget resolution called for the shifting of billions of dollars of money-saving, government contracts with private firms back to the bureaucracy. It was never enacted, but, undeterred,

the opponents of private sector solutions have recently introduced several pieces of legislation that would forbid the use of government funds to study the privatization of several existing government programs.

Considering the role that private initiative and private solutions to public problems have played in our history, this would indeed be a sad end to a valuable concept that has contributed so much to the American experience.